



# IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

## FACT SHEET

This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

### **IMPORTANT NOTE**

**This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.**

## IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 28 is applicable for annual reporting periods commencing on or after 1 January 2013.

## SCOPE

IAS 28 applies in accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

## ACCOUNTING TREATMENT

### Significant influence

An associate is an entity over which an investor has significant influence. There is a rebuttable presumption that an entity holding, either directly or indirectly, 20 per cent or more of the investee's voting power has significant influence over the investee. If the entity holds less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless it is clearly demonstrated otherwise.

### Equity method

An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in IAS 28.

The exemptions include:

- if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraphs 4(a) of IFRS 10 *Consolidated Financial Statements*; or
- all of the following apply:
  - a. the entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method;
  - b. the entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
  - c. entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and
  - d. the ultimate or any intermediate parent of the entity produces consolidated financial statements available for public use that comply with IFRSs.

Where the investments or a portion of an investment in an associate or joint venture is classified as held for sale, the entity shall apply IFRS 5 *Non-current assets held for sale and discontinued operations*. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that

is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IFRS 9 *Financial Instruments* unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9.

### Application

Under the equity method, the investment in an associate or joint venture is initially recorded at cost.

Subsequently, the carrying amount of the investment is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss.

The following transactions will have an impact on the carrying amount of the investment:

- distributions received from an investee reduce the carrying amount of the investment; and
- adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. The investor's share of those changes is recognised in the investor's other comprehensive income.

After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

IAS 28 states that the entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances. Therefore, if an associate or joint venture uses accounting policies that differ from those of the entity, adjustments are required for consistency.

### Dissimilar reporting periods

The most recent available financial statements of the associate or joint venture are used in applying the equity method. If the reporting periods of the associate or joint venture and the entity differ, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so. Adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements.

In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

#### **Discontinuation of the equity method**

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

- If the investment becomes a subsidiary, the entity shall account for its investment in accordance with IFRS 3 *Business Combinations* and IFRS 10.
- If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The entity shall recognise in profit or loss any difference between:
  - a. the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
  - b. the carrying amount of the investment at the date the equity method was discontinued.
- When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

#### **Impairment losses**

After application of the equity method, including recognising the associate's or joint venture's losses, the entity applies IAS 39 *Financial Instruments: Recognition and Measurement* to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.

The entity also applies IAS 39 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

#### **Separate financial statements**

An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of IAS 27 *Separate Financial Statements*.

## DISCLOSURES

There are no disclosures specified in IAS 28. IFRS 12 *Disclosure of Interests in Other Entities* outlines the disclosures required for entities with joint control of, or significant influence over an investee.

## DEFINITIONS

<b>Associate</b>	An entity over which the investor has significant influence.
<b>Equity method</b>	Method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.
<b>Joint arrangement</b>	An arrangement of which two or more parties have joint control.
<b>Joint control</b>	The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
<b>Joint venture</b>	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
<b>Significant influence</b>	The power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The following terms are defined in paragraph 4 of IAS 27 and in Appendix A of IFRS 10 and are used in this Standard with the meanings specified in the Standards in which they are defined:

- control of an investee
- group
- parent
- separate financial statements
- subsidiary

## AUSTRALIAN SPECIFIC REQUIREMENTS

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The Australian equivalent standard is AASB 128 *Investments in Associates and Joint Ventures* and is applicable for annual reporting periods commencing on or after 1 July 2013.

## OTHER MATTERS

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